

## CS Market Research: Spain

### Software for Professional Applications in Spain: Integrated Business Software

#### Summary

Both the overall Spanish software market and the market for integrated business software are experiencing healthy market growth for 2004 and 2005. The Spanish market for integrated business management software alone is estimated at \$ 626 Million for 2004. Local firms cover half of this market and foreign firms the other half. By type of solution, Enterprise Resource Planning (ERP) concentrates 57.4 % of all IT budget in Spanish firms in management solutions, followed by Customer Relationship Management (CRM) with 16.6 %, software for Payroll and Human Resources 15.7 % and Supply Chain Management (SCM) with 5.2 %. Main opportunities are found in platforms that integrate front and back offices, that offer on-line access and allow more flexibility and remote but secure access. US firms interested in this market are advised to partner with local distributors with a good client base, who are able to customize solutions. 70 % of all sales of enterprise management solutions are currently sold in Spain through the sales channel (indirect sales). Main customers/end users in this market are small and medium firms (from 25 to 250 employees) in the industrial sector, while the typical distributor is a small firm covering the local market, with an average of 10 to 25 employees, mostly located in Madrid and Barcelona.

#### Market Overview

The market in Spain for Information Technology (IT) including hardware, software and services represents 5 percent of the total European market and nearly 2 percent of Spanish GDP. The Spanish IT market accounted for \$ 14.2 billion in 2004 and is expected to reach \$ 15 billion in 2005. After moderate growth in the overall IT sector in 2002 and 2003, projected levels for 2004 and 2005 again show positive growth trends (2.7 % and 4.9 % respectively). The Spanish IT industry offers significant opportunities for U.S. companies.

The computer software market accounts for 19% of the Spanish IT market. This segment was valued at \$ 2.7 billion in 2004 (a 5.3 % increase over 2003), and is expected to reach \$ 2.9 billion in 2005, 6 % more than in 2004. This positive growth trend is expected to continue in 2006, with an estimated increase of 5.9 % over 2005. System software represents 54 % of the Spanish IT market while application software accounts for the remaining 46 %.

Software market share breaks down as follows: operating systems (28 %), horizontal application software (19 %), software communications (16 %) and databases (14 %). As an indication of the strongest growth markets, the largest one-year increases are found in multimedia software (36.9 % increase in 2002), software for databases (18.3 % in 2002), vertical applications (17.1 %), operating systems (13.2 %) and communication software (9.3 %).

#### Sales Growth in the Software Market

	<b>2004</b> <b>(Euros Million)</b>	<b>2005</b>	<b>2005</b> <b>(\$ Million)</b>	<b>2005/2004</b> <b>%</b>	<b>Total Software</b> <b>%</b>
System software	1,190	1,280	1,565	7.5	54
Application software	1,050	1,097	1,342	4.5	46
<b>Total Software</b>	<b>2,240</b>	<b>2,377</b>	<b>2,907</b>	<b>6.1</b>	<b>100</b>

Source: EITO (European Information Technology Observatory, 2005)

NOTE: Market growths expressed in real Euro terms

Exchange Rate Euro to \$: 1.2151 (2004); 1.2230 (2005)

The following shows information in U.S. dollars of main indicators for Spanish Software:

	2003	2004	2005
Total Market Size	2,408	2,722	2,907
Total Local Production	1,637	1,806	1,920
Total Exports	433	520	552
Total Imports	1,204	1,436	1,541
Imports from the U.S.	253	316	385

(The above statistics are unofficial estimates, based on EITO figures and industry sources).

Exchange Rate Euro to \$: 1.1321 (2003); 1.2151 (2004); 1.2230 (2005)

Software growth will be strong both in infrastructure and applications, as Spanish companies are undergoing major modernization along their value chains, which also impacts the IT services market. The software segment offers opportunities for U.S. firms, specifically for software for business integration and software for communications.

The integrated business software market in Spain is very closely connected to services, especially in software development and customized installations. Computer services represent 37 % of the total IT market in Spain. The size of the computer services industry in Spain is expected to grow 5.3 % between 2004 and 2005. The large increase in the computer services market in Spain is mainly from increased outsourcing, support and consulting services, particularly in the areas of IT consulting (6.2 % growth between 2005 and 2004), and operations management (9.1 % between 2005 and 2004).

Although the IT services market offers good potential, most of the services are provided by local firms or foreign subsidiaries located in the local marketplace. Industry estimates suggest only 5 - 7 % of IT services are directly provided by foreign-based firms.

#### Sales Growth in IT Services

	2004 (Euros Million)	2005	2005 (\$ Million)	2005/2004 %	Total Services % in 2005
Consulting	399	423	517	6.2	9 %
Implementation	1,777	1,848	2,260	4.0	41 %
Operations Management	953	1,040	1,272	9.1	23 %
Support Services	1,187	1,233	1,508	3.9	27 %
<b>Total IT Services</b>	<b>4,315</b>	<b>4,544</b>	<b>5,557</b>	<b>5.3</b>	<b>100 %</b>

Source: EITO and SEDISI

NOTE: Market growth expressed in real Euro terms

Consulting services consist of business and technological consulting. Implementation refers to software development, design and integration (customized software). Operations management is comprised of outsourcing and data processing, while support services include software maintenance and call centers.

## **Market Trends**

Spain is a member of the European Union (EU) and remains the fastest growing of the EU's larger economies. Spain's GDP grew 2.5 % in 2003, 2.7 % in 2004, and 3.3 % at the end of 1<sup>st</sup> Quarter 2005 (under a revised methodology), mostly spurred by construction, private consumption and most significantly, capital investment. The Spanish Government estimates growth for 2005 at 3.0 percent. Inflation at 3.2 % and unemployment rate at 10.8 % continue to be higher than the EU average, though both are improving in 2005.

The main forces behind the strength of sales of integrated business management solutions are changes in the business environment. The recovery in software spending will rely mainly on the acceleration in license upgrades and renewals. Major trends in the software market are:

- Continued globalization of business, and increased level of competition
- Increased demand for excellence in customer support and "customer-intimate models"
- Increased integration between businesses and their partners, especially in areas such as sharing information, E-Commerce, and supply chain tools.
- IT budgets are growing, especially for applications providing value and increased productivity to the organization

### Application solution market

Traditional software for single solutions is changing to cross-industry packaged applications integrating all activities involved in the value chain. Main areas of development are those related with applications for CRM and SCM. All organizations want to integrate the client's needs in the process and streamline contact points between a company and its customers.

ERP applications include new features to become more client oriented (turning into CRM solutions), which shows the increasing importance of the front office in all the organizations. ERP solutions still represent a large proportion of the market.

Trends in the application solution market are:

- Enterprise application suppliers are targeting mid-market enterprises and vertical niches.
- Increasing importance of the front office and supply-chain integration.
- Internet is seen as a source of competitive advantage, offering new channels for both suppliers and buyers. Internet-based applications for E-Commerce, enterprise applications, database management systems (DBMS) or On-Line Transaction Processing (OLTP) are also important. Focus is concentrated on solutions based on Extensible Markup Language (XML).
- Use of packaged applications is increasing also in those industries (banking, insurance, public sector and healthcare) that previously were using in-house developed applications.
- Some other emerging markets are E-Commerce, E-procurement, E-marketplaces, analytical applications and treasury management. However, the focus is in CRM and SCM applications.

## **Import Market**

The Integrated Business Management software market is expected to grow by four to five percent over the next few years. This type of software was considered too expensive in the past and exclusive to large organizations with advanced computers. With the new affordable and powerful PCs, these integrated solutions are growing drastically, especially in medium firms and, to a lesser extent, in small companies.

The Spanish market for integrated business management software alone is estimated at \$ 626 Million for 2004. Local firms cover half of this market with locally developed solutions while the other half is imported software. Most of the large multinational firms in the market are already present, and national statistics categorize their sales as “national software”.

Imports in the IT sector are mainly concentrated in hardware. However, imported software represents 48 percent of total software sales. Computer software represents a small proportion of foreign trade figures in the sector (only 15 percent of imports and 17 percent of exports). Although 80 percent of IT products and services come from other European countries and only 7 percent from the U.S., the majority of the imported computer software either comes from the U.S. or from a European country through a U.S. subsidiary.

## **Competition**

The market for integrated business management solutions is influenced by both global and local acquisitions. The global market has been impacted by a general concentration (Oracle acquiring People Soft, which also acquired JD Edwards; Microsoft acquiring Navision; SSA taking Baan), while the local market has also concentrated and limited the number of key players in the industry (and even more after the UK based Sage Group took over local firms SP, ARS Software and Logic Control).

Percentage market shares of ERP solutions installed in Spanish businesses during 2004 are:

SAP	53 %
Oracle + People Soft	15
Microsoft Navision	7
Intenia Movex	6
SSA + Baan	5
Ross Systems	2
Other firms	12

Source: Grupo Penteo

SAP is also the leader in CRM, followed by Oracle, Siebel and SSA (Baan). Most local businesses trust their ERP suppliers and prefer to purchase their CRMs from the same ERP vendors:

Market shares for CRM applications installed in Spanish businesses in 2004:

SAP	24 %
Oracle + People Soft	21
Siebel	16
SSA + Baan	7
Salesforce	4
E-piphany	2
Ardexus	2
Other firms	24

Source: Grupo Penteo

Most of the local firms offering management tools in the Spanish market are offering solutions for payroll, accounting and invoicing. Some of these firms are AS Software, Centro de Calculo de Sabadell, Dimoni Software and Logic Control. These firms started with basic management tools and migrated to ERPs and CRM applications.

The overall integrated business management solutions can be divided by the size of the end user: small firms (up to 50 employees), medium (50 to 250) and large customers (more than 250). The market for large corporations is mature and consolidated, mostly in the hands of the main multinational vendors (SAP, Oracle), and profits come from maintenance of current applications and fees per hour. For this reason, major players in this niche are moving to the next layer of clients: medium firms. This medium niche is where large vendors and small local players are trying to gain market share, and all the key players are present: SAP, Oracle, Microsoft, Sage and the local firms Logic Control, CCS, and RPS. To conclude, the market in this medium niche is very competitive for the estimated total number of clients of approximately 12,000 firms. Local suppliers mostly cover the small firm niche (Logic Control, RPS, and Sage thanks to the acquisition of SP). These firms have a long history in the market, know the regulatory framework (mostly for accounting and payrolls), have a consolidated relationship with small firms and are flexible to their needs.

A recent survey published by CB Consulting on the structure of the distribution channel of Integrated Business Management Solutions revealed that 42 % of all Spanish distributors handle management software solutions from both local and foreign firms. This means that 58 % of the local distributors only sell their own solutions. Industry analysts foresee that this trend will change drastically by 2007, when local firms offering their own business management solutions will not be able to adapt to new technological changes. Industry sources believe that about 20 % of distributors only selling their own solutions have now decided to distribute solutions developed by other firms. CB Consulting estimates that 70 % of all sales of enterprise management solutions are currently sold in Spain through the sales channel (indirect sales).

## **End Users**

The market for integrated management software solutions is one of the key areas in IT investment for Spanish companies. Thus, according to a recent survey by CB Consulting, 16.1 percent of the IT budget in Spanish businesses will be spent on this type of solutions.

By sector, industry shows the highest percentage of investment in this type of solutions (21.3%), followed by the commercial distribution sector (20.5%), public administration (18.3%), non-financial services (5.6%) and the finance sector (4.2%).

By type of solution, ERPs concentrate 57.4 % of all IT budget in Spanish firms in management solutions, followed by CRM with 16.6 %, software for payrolls and Human Resources 15.7 %, SCM Solutions 5.2 % and other software 5.1 %.

The following chart shows the IT budget in management software by type and sector of activity. Most of the It expenditure in the organizations is dedicated to ERPs and CRMs, and mostly in the industry and commercial distribution sectors:

## **2004 IT Budget in Software Management by Solution Type and Sector of Activity (%)**

IT Solution	Industry	Distribution	Services	Publ. Admin.	Finance
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ERP	59.7 %	58.7 %	69.7 %	28.0 %	100.0 %
CRM	14.7 %	13.7 %	22.1 %	24.0 %	0.0 %
Payroll & HR	10.9 %	17.5 %	5.9 %	36.1 %	0.0 %
SCM	5.6 %	3.8 %	2.3 %	0.0 %	0.0 %
Other IT Solutions	9.1 %	6.3 %	0.0 %	11.9 %	0.0 %
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Source: CB Consulting and Computing Yearbook 2004

The main customers/end users in this market are small and medium firms (from 25 to 250 employees) mainly from the industrial sector, while the average distributor is concentrated in small firms covering the local market, with an average of 10 to 25 employees, and mostly located in the regions with the most economic activity (Madrid, Catalonia, Valencia, Basque Country).

### Market Access

Spain offers an excellent market for U.S. firms supplying Information Technology and Communications products and services. There are no trade barriers or limitations on the import and marketing of U.S. computer products and services. Only encryption software is subject to export and import limitations due to its special nature. Services such as consulting are taxed via a normal percentage of income (IRPF-Impuesto de la Renta de las Personas Fisicas) and is applicable to Spanish, EU, and U.S. competition. In addition, a 16 percent Value-Added Tax is levied on all products or services, whether produced domestically or imported.

As of January 1, 2000, under the Information Technology Agreement, to which the EU is a signatory, there is no tariff on computer equipment and software. Additional detailed information on customs duties may be obtained from the website: [www.taric.es](http://www.taric.es).

According to the U.S.-Spain Treaty on Double Taxation, a withholding tax applies to payments connected to licenses of software, as they are considered as a royalty by the Spanish Tax Authorities. They have taken the position that those payments are due to the use of an intellectual property right (a literary work or a scientific work). Consequently, these royalties are subject to a percent tax rate established in the double taxation treaty. There are three possibilities (article 12.2, regarding royalties):

5% of the royalties for the use of copyrights of literary, dramatic, musical or artistic work,  
8% of the royalties for the use of films, tapes and means of reproduction of image or sound, and for the use of industrial, commercial or scientific equipment, and for scientific work.  
10% of the gross amount of all other royalties.

The withholding tax regime does not change in the case of software distributed over the Internet. Additional details on Spanish laws can be obtained from the Spanish Tax Authorities. There is a section in English on their web page <http://www.aeat.es> specifically addressed to non-residents.

U.S. companies should be aware that the circulation of euro bills and coins began on January 1, 2002 for Spain and 11 EU counterparts (Germany, France, Italy, Ireland, Portugal, Greece, Holland, Belgium, Luxembourg, Austria and Finland). On March 1, 2002, individual currencies disappeared and the Euro became the official currency of these countries.

Spain, like other EU countries, has a market economy. American companies are able to move capital without major restrictions. In general, foreign products are imported by an irrevocable letter of credit.

When there is a continued relationship between exporter and the importer or distributor, other forms of payment can be negotiated.

Import procedures are governed by international trade regulations, and technical specifications are essentially those established by the European Union, as they have been incorporated into Spanish regulations. Meeting domestic laws and standards should not be difficult for U.S. exporters. Information on standards can be obtained from AENOR, the Spanish Association of Standards ([www.aenor.es](http://www.aenor.es)). EU legislation is available at: [www.europa.eu.int/eur-lex](http://www.europa.eu.int/eur-lex).

## **Market Entry**

Major multinationals and large companies use their own direct network and sales organizations to offer Information Technology products and services to their clients. Other types of firms providing IT solutions in the local marketplace, and able to represent foreign firms, are systems integrators, software developers and value-added-resellers (VARs).

Custom-made software (professional software) is mostly distributed through VARs and service providers, where associated services, prestige of the supplier and after-sales support are more important. Most of these firms are able to integrate software into the client's systems and provide adequate technical support. They are rapidly increasing their market share in Spain.

The indirect distribution channel (distribution through local distributors) is increasing the number of IT services they are able to offer, such as assembling their products with their own trademark. From the total sales in the indirect channel, 70 % are for hardware, 21 % software, 6 % supplies and 3 % for services.

The IT market in Spain includes approximately 60 IT wholesalers and dealers and nearly 12,000 distributors or retailers, although the number of businesses with a significant level of sales is no more than 2,500. Industry concentration in Spain is similar to other countries in the European Union. The top ten vendors in the country are estimated to conduct 46 % of the IT sales in the country. There are eight dealers among the 35 top firms in Spain, according to sales. The top retailers or retail-store chains are Informática El Corte Inglés, Data Logic, Dinsa and Jump. Other international chains such as Media Market, FNAC or PC City (owned by Dixons) are rapidly gaining market exposure thanks to their aggressive marketing campaigns.

The Spanish market is best described as a series of regional markets with two major hubs, Madrid and Barcelona. These two metro areas contain the vast majority of agents, distributors, corporate headquarters, and government entities that comprise the country's economic backbone. Additionally, the IT market in Spain is concentrated primarily in Madrid and Catalonia.

U.S. companies interested in exporting to the Spanish market should devote time and effort to promote their products. Visiting and participating in trade shows, establishing personal contacts with potential customers and representatives and advertising in local trade publications are good ways for US firms to promote their products and services effectively in Spain. Translation to Spanish is also a key element easily justified by the size of the market.

Regarding distribution channels, U.S. manufacturers and exporters interested in the Spanish market need a competent local agent, distributor or representative, unless they plan to open their own branch office or subsidiary. A good agent should be able to provide technical assistance and local servicing and be well acquainted with local political dynamics and business practices. Spain is quite open to foreign investment. Laws are liberal, with practically no restrictions.

Additional information on marketing U. S. products and services in Spain is contained in the “Country Commercial Guide Report for Spain”, which is available through the U.S. Export Assistance Centers and at the website [www.export.gov](http://www.export.gov).

### **Software Piracy**

While software piracy in Spain is not as prevalent as in many other countries, it is still significant and represents a high percentage of total software installed. The Business Software Alliance (BSA) and the Spanish IT Association AETIC are conducting anti-piracy campaigns in all business and professional sectors.

Spain’s level of software piracy decreased to 43 % in 2004 (\$ 634 Million) from 88 % in 1993. This percentage is 8 points over the European average of 35 % (which represents a total loss of \$ 12 billion). Spanish authorities and the IT industry have estimated that a reduction of the software piracy rate from the current 43 % to 33 % would represent an increase in total sales in the IT industry of 67 % and an increase in GDP of \$ 3.7 billion.

### **Opportunities for Profile Building**

Many Trade Shows and Conferences in specific niche and professional markets offer good networking opportunities for US firms. Most of them are directed to professionals and sometimes even directly organized by vendors who promote their own solutions to their clients and partners. Some websites provide lists of events in the IT arena, such as <http://www.eventosinternet.com/> or <http://www.creaformacion.com/agenda/eventos.asp>. Interested US firms should contact CS Spain to better identify the ideal event for their needs and target audience.

### **Key Contacts**

Spanish Ministry of Industry and IT Society: [www.min.es](http://www.min.es)

Spanish ICT Association: [www.aetic.org](http://www.aetic.org)

Data Protection Agency: [www.agpd.es](http://www.agpd.es)

CS Spain: [www.buyusa.gov/spain](http://www.buyusa.gov/spain)

### **Upcoming Trade Shows/events**

The U.S. Commercial Service has an agreement with IFEMA, the Madrid Trade Fair Authority, to facilitate U.S. companies’ business activities in Spain. Among the Shows held at IFEMA, SIMO is the event with the most impact and presence of IT firms, and the largest Information and Communications Exhibition in Spain: [www.simo.ifema.es](http://www.simo.ifema.es). The 45<sup>th</sup> edition of SIMO will be held November 15- 20, 2005 at Feria de Madrid. In 2004, 850 direct exhibitors participated in SIMO, in an area of 55,320 square meters. SIMO 2004 had 280,000 visitors.

SIMO mainly covers four sectors of the industry: Information Technologies, Professional Applications, Telecommunications and E-Business and Internet. Further information on the Show and on the IT sector in Spain can also be obtained from:

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